

New Jersey Basic Generation Service Auction

Illinois Commerce Commission – Procurement Working Group
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New Jersey BGS

- The NJ BGS auction establishes a competitively priced supply for two EDC rate classes: CIEP and FP.
 1. Procurement Auction for Large Customers (CIEP – Commercial and Industrial Energy Pricing)
 - Provides fixed capacity price with floating hourly energy price.
 2. Procurement Auction for Smaller Customers (FP – Fixed Price)
 - Provides full requirements service at a fixed price to the customer.
- The two auctions are conducted concurrently, but separately.

New Jersey BGS – EDC Participants

- The NJ BGS procures CIEP and FP supply for:
 - Atlantic City Electric Company d/b/a Conectiv Power Delivery (ACECO)
 - Jersey Central Power & Light Company (JCP&L)
 - Public Service Electric & Gas Company (PSEG), and
 - Rockland Electric Company (RECO)

New Jersey BGS – FP

- BGS-FP is a full requirements product.
 - EDC's total load is divided into "tranches".
 - A tranche for an EDC represents a fixed percentage of the EDC's total BGS-FP Load for a given term.
 - Bidders submit a bid price at which they are willing to supply full requirements supply for a tranche.

BGS-FP Number and MW-Measure of Tranches						
		Number of Tranches Procured				
EDC	FP Peak Load (MW)	In 2003	2004 – 1yr	2004 – 3yr	Tranche % of Total	MW – measure
PSEG	8,616 MW	29	28	28	1.18%	101 MW
JCP&L	5,089 MW	14	12	15	2.27%	116 MW
ACECO	2,109 MW	7	8	7	4.55%	96 MW
RECO	375 MW	1	2	1	25.00%	94 MW

New Jersey BGS – CIEP

- BGS-CIEP is a full requirements product.
 - A capacity price (in \$ per MW-day) is determined through the auction.
 - The energy charge is the hourly PJM real-time energy price and is passed through to the CIEP customers.
 - Transmission and ancillary service prices are charged at rates specified in the Open Access Transmission Tariff (OATT) and by PJM.

BGS-FP Number and MW-Measure of Tranches				
EDC	CIEP Peak Load (MW)	Procured in 2004	Tranche % of Total	MW – measure
PSEG	1,635 MW	65	1.54%	25 MW
JCP&L	701 MW	28	3.57%	25 MW
ACECO	349 MW	14	7.14%	25 MW
RECO	29 MW	1	100.00%	29 MW

New Jersey BGS – 2003/2004 Auction Results

BGS-FP 2003/04 Auction Results				
	Closing Prices (in \$ per MWh)			
EDC	2003 – 10 mo Tranche	2004 – 1yr Tranche	2003 – 34 mo Tranche	2004 – 3yr Tranche
PSEG	\$53.86	\$54.79	\$55.60	\$55.15
JCP&L	\$50.42	\$53.25	\$55.87	\$54.78
ACECO	\$52.60	\$54.73	\$55.29	\$55.13
RECO	\$55.57	\$55.66	\$56.01	\$55.97

BGS-CIEP 2003/04 Auction Results		
EDC	2003 Closing Prices (\$ per MW-day)	2004 Closing Prices (\$ per MW-day)
PSEG	\$60.00	\$52.01
JCP&L	\$65.25	\$54.98
ACECO	\$56.10	\$49.90
RECO	\$59.80	\$57.96

New Jersey BGS – Timing

Part 1 Application available	11/17/2003
Statewide minimum and maximum starting charges (prices) announced for CIEP (FP) auction	11/24/2003
Statewide load cap announced for CIEP auction; FP load caps announced	11/24/2003
Tranche sizes announced	11/24/2003
Information Session for Potential Bidders, Philadelphia	12/4/2003
Part 2 Application available	12/15/2003
Part 1 Application Deadline	Noon, 12/16/2003
Part 1 Applications are reviewed	12/16/2003 to 12/19/2003
Applicants are notified of Part 1 Application Results	12/19/2003
Part 2 Application Deadline	Noon, 1/9/2004
Part 2 Applications are reviewed	1/9/2004 to 1/16/2004
Potential Association issues are reviewed	1/9/2004 to 1/16/2004
Applicants are notified of Part 2 Application results	1/16/2004
Tranche Fee is announced	1/22/2004
Information session for Registered Bidders, Philadelphia	1/22/2004
Trial auctions for registered bidders	1/27/2004
Auction Manager informs Registered Bidders of EDC-specific starting prices	1/28/2004
Auctions start	2/2/2004
Full Factual Report to the Board from the Auction Manager and CRA	2/11/2004
Board decision on Auction results	2/11/2004
Winning suppliers execute BGS Supplier Master Agreements	Within three business days of Board Decision
Power Flows	6/1/2004

New Jersey BGS Auction Process – 1

- BGS Auction is a Clock Auction
 - Auction begins at the Auction Managers starting price.
 - In each round, bidders bid for the right to serve one or more tranches of load at the current price. (A tranche is a fixed percentage of an EDC's load.)
 - If at the end of a bidding round, if number of tranches offered is greater than number needed, Auction Manager ticks down the price and bidders resubmit the number of tranches to be supplied at the new price.
 - Auction ends when number of tranches offered equals number of tranches to be procured from the auction.

New Jersey BGS Auction Process – 2

- Exiting
 - If an bidder wishes to exit the auction, bidder must submit an exit price, which serves as their final offer.
 - The exit price must be above current round's price and below or equal to prior round's price.
- Switching
 - Bidder may request to switch between products, tenors and/or EDCs.

Auction Features

- Transparent process – everyone sees the prices.
- Administered by an independent third party.
- Strict confidentiality requirements to prevent bidder collusion.
- Products are designed to match utility customer obligations.
- A load cap limits the amount of FP load that a single bidder can serve. The 2004 load cap was approximately 10% of total FP load for each EDC.
- Online auction process through secure website.
- Historical load data available to assist in bid pricing.
- More information available at www.bgs-auction.com

Market Participant Application Process – 1

- Market Participant Qualifications – Two Part Application Process
 - Part I Application is to establish Bidder qualifications
 - Bidder Identification
 - Credit Support Documentation
 - Bidder Status – FERC licensed, PJM Membership and other qualifying information.
 - Bidder's Authorized Representative is Established
 - The BGS Auction Manager determines whether or not a bidder is qualified to submit a Part II Application.

Market Participant Application Process – 2

- Part II Application

- Bidder provides an indicative offer of price. (The Auction Manager publishes a suggested starting price for offers.)
- Bidder discloses expected quantity of tranches to be bid.
- Bidder calculates and supplies auction security.
- Bidder provides signed CIEP and/or FP Purchase Sale Agreement and supporting credit and collateral documentation.

New Jersey BGS – Credit Requirements

- Market participants should have a minimum senior unsecured debt rating of BBB-/Baa3. That is, the market participant should be an investment grade credit. (Allowances have been made for sub-investment grade entities that provide appropriate credit support.)
- Market participants must provide either:
 - Bid bond from an A/A2 rated surety or
 - Irrevocable letter of credit in the favor of the EDCs.
- Market participants must also provide a letter of intent to provide a Guaranty in favor of the EDCs.

New Jersey BGS – Accounting Treatment – 1

- All market participants prefer matching accounting treatment for the sale transaction to avoid accounting mismatch. That is, MTM = MTM and accrual = accrual.
- The preferred type of accounting treatment for the BGS transaction (MTM or accrual) depends on the other side of the transaction.
 - Sellers may execute "hedge transactions" to offset the risk of BGS sales. Since the hedge transactions are subject to MTM accounting treatment, the Sellers may prefer the BGS sale to qualify for MTM treatment, also.
 - Buyers resell the purchased energy to its customers, which pay for energy over time (accrued revenues). Buyers prefer accrual accounting treatment.
 - Some Sellers also may prefer accrual accounting treatment.

New Jersey BGS – Accounting Treatment – 2

- NJ BGS contracts have been structured to qualify as derivatives under FAS 133, which allows Sellers to use MTM accounting.
- ***But*** the accounting rules allow Buyers to apply for an exemption from using MTM accounting, because the purchase is considered in the normal course of business. This allows Buyers to use accrual accounting for the BGS transaction.
- The Maryland BGS did not structure its contract to qualify as a derivative, so Morgan Stanley (and possibly other entities) chose not to participate.

New Jersey BGS – Accounting Treatment – 3

- To qualify as derivatives under FAS 133, NJ BGS sales contracts incorporate a "close out provision".
- On the closing day of the auction the following parameters are set:
 - The expected On-Peak Load per tranche for each EDC.
 - The expected Off-Peak Load per tranche for each EDC.
 - A table of monthly on-peak forward prices (to be used as the inception price for each month of the supply period).
 - A table of monthly historical on-and off-peak energy prices to determine the ratio of off-peak price to on-peak prices.
- The close out provision provides a fixed quantity of MWh in the event of a default. A fixed volume is a criteria of the FAS 133 accounting standard that qualifies the BGS auction sale as a derivative contract. MTM accounting is applicable.

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